

# Prosecuting Securities Fraud

## New Jersey Played Key Role in Holding Investment Firms, Brokers Accountable; Fraud Investigations Led to Restitution, Significant Industry Reforms

In June 2004, Attorney General Harvey was invited to testify before the U.S. Senate Committee on Banking, Housing and Urban Affairs concerning the vital role of the states in regulating securities and protecting investors. The invitation was not a coincidence. In 2003-2004, the New Jersey Attorney General's Office made securities enforcement and investor protection a chief objective. Working through its New Jersey Bureau of Securities, the OAG posted an impressive record of accomplishment in investigating securities fraud, and in prompting corporate reforms that brought greater integrity to the industry.

Bolstered by an infusion of staff and other resources, the Bureau of Securities played a leadership role in an April 2003 settlement between securities regulators and 10 major Wall Street firms regarding stock analyst practices. New Jersey served as co-chair of the Steering Committee for the multi-state task force that investigated the Wall Street firms. New Jersey also led an investigation of Bear, Stearns & Co. that ultimately yielded important industry reforms. Those reforms were designed to ensure that stock analysts are not pressured by

firms who employ them to report favorably on stocks and bonds offered by the firms' investment banking clients.

In June 2004, the Attorney General's Office reached a major settlement with Allianz Dresdner Asset Management and two affiliated companies. The \$18 million settlement involved the largest penalty ever collected by the State in a securities case. The settlement resolved allegations that Allianz Dresdner and the other firms allowed a large investor to "market time" more than \$4 billion in transactions related to their mutual funds in violation of fund policies, and to the detriment of long-term investors.

The settlement also required defendants to make in-house changes to ensure that portfolio managers function independently of business managers, and that funds comply with their own policies barring market timing.

In addition to these milestones, New Jersey filed eight major securities fraud complaints involving more than \$160 million in investments, including:

- ❖ **A June 2003 lawsuit against more than a dozen North Jersey companies and their principals for allegedly stealing tens of millions of dollars from investors.** The scheme's principal architect was Thomas Giacomaro, who has pleaded guilty to charges of money laundering brought by the Division of Criminal Justice, as well as federal charges of mail fraud and tax evasion. Among the victims was best-selling author Mary Higgins Clark.

- ❖ **A December 2003 lawsuit against Michael R. Casey, of Upper Saddle River, seeking restitution for at least 195 investors** who allegedly were defrauded of up to \$15 million in a real estate investment scheme run by Casey.

Casey is accused of setting up a complex network of business entities to front his scheme, and recruiting investors through his tax preparation business, as well as through a series of investment workshops.

- ❖ **A February 2004 suit against Brick resident George F. Gaffney, who allegedly stole in excess of \$350,000 from more than 200 people who invested in his patented invention,** a system of straps hitched to anchors in the ground designed to tie down portable structures and large personal items during storms.

- ❖ **A February 2004 suit against three men and their companies, including Clover Management Group of Fort Lee, for allegedly defrauding British investors of more than \$55 million.** The defendants claimed to offer defense industry investments that would provide strong returns while aiding the British and U.S. war effort in Iraq, and the war on terrorism. Seized defendant assets included a \$2 million yacht, bank accounts and luxury cars.

- ❖ **In April 2004, the Attorney General's Office and the Bureau of Securities obtained a court order freezing the assets of Richard Thomas Geck of Toms River, as well as his firm, Cobalt Investors Services Inc. of Manasquan,** after the filing of a State complaint alleging that Geck swindled at least seven elderly women out of more than \$360,000 in retirement savings.



The Attorney General's Office repeatedly made headlines during the past two years through its aggressive prosecution of unlawful and unethical conduct within the securities investment industry.

## 3 men invoked war on terror in \$55M scam, N.J. charges

By KEVIN G. DeMARRAIS  
STAFF WRITER

## Merrill Lynch paying fines to N.J., Conn. \$13.5M settles market-timing charges lodged against Bergen County brokers

BY JOSEPH R. PERONE  
STAR-LEDGER STAFF

Merrill Lynch agreed to pay \$13.5 million in fines for failing to supervise three Bergen County financial advisers who engaged in improper trading of mutual funds, officials announced yesterday.

The New York-based brokerage firm, which neither admitted nor denied the allegations, will pay a \$10 million civil

penalty to the New Jersey Bureau of Securities, the state of Connecticut and the New York Stock Exchange.

Merrill Lynch brokers engaged in market timing using accounts held for a single hedge fund client, identified as Millennium Partners, according to state Attorney General Peter Harvey.

In this case, the brokers bought and sold some funds up to 50 times a year, though mutual funds typically limit moves to a half-dozen a year, Harvey said.

"It hurts the long-term investor you or me to have market timers that, because it makes mutual funds volatile and increases the risk of

## AG charges fraud was family affair

BY TOM JOHNSON  
STAR-LEDGER STAFF

A New York City man, several members of his family and dozens

County, include Joseph Greenblatt; his wife, Alexandra Horvath; his father, Max Greenblatt; the estate of Joseph Greenblatt's mother, Vera Greenblatt; and Michael Greenblatt.

City secured by "safe" first mortgage.

More than 100 investors were promised 14 percent interest plus additional profits when the build-

The defendants placed newspaper ads offering interests in "safe" mortgages in California, Florida, Massachusetts, New York and New Jersey, according to the securities

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## Pimco Advisers Charged With Fraud

New Jersey Claims Firm Allowed Improper Trading Of Bond and Stock Funds

### State charges ex-lawyer with \$42M fraud

Lawsuit seeks restitution in alleged real estate scam

By KEVIN G. DeMARRAIS  
STAFF WRITER

Joseph Greenblatt committed "massive fraud" while working out of his Paramus real estate office over the past decade, according to a lawsuit filed yesterday.

are units of German insurer Allianz AG.

In a statement yesterday, the independent trustees of the Pimco funds said New York-based PEA would repay the funds affected \$1.6 million for harm caused by the trading known as market timing.

But the complaint filed in New Jersey Superior Court yesterday goes beyond the activities acknowledged by Pimco Funds last week. In addition to the alleged market timing of stock funds, the suit contends that improper trading was allowed in a pair of bond funds run by Pimco.

Investigators for New Jersey Attorney General Peter C. Harvey also contend that Canary—the hedge fund that was the first to be charged in the fund-trading scandal that began in September 2002 and September 2003. Canary made more than 200 market-timing trades with a total value of over \$4 billion, the suit said.

In exchange, the New Jersey complaint said, Pimco Funds accepted tens of millions of dollars in so-called sticky commissions.

of providing nonpublic information about the holdings of its fund portfolios to a brokerage firm with close ties to Canary.

While PEA agreed to pay \$1.6 million to the Pimco funds, the investment advisory firm said it believed that in certain cases the market timing actually benefited long-term fund shareholders.

The complaint contends that the trading allowed by Pimco violated the prospectus language for both the firm's stock and bond funds. Pimco's prospectus said the firm could block market timers if the trading was detrimental or the timer made more than six in-and-out trades in any 12-month period.

Regulators also accused Pimco of providing nonpublic information about the firm's stock funds to Brean Murray Inc., a brokerage firm through which Canary was introduced to Pimco. Brean Murray wasn't charged in the New Jersey complaint. A representative of Brean Murray didn't return a call seeking comment.



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